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## Economic Growth Highlights

### Strengthening Markets

USAID programs in 57 countries pursued this objective in 1996.

■ USAID played a vital role in expanding the role of the private sector through policy and regulation reform. The private sector in Albania, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Russia, and the Slovak Republic produced more than 50 percent of gross domestic product in 1995, compared with less than 12 percent in 1989.

■ The Agency helped restructure capital markets in India, Indonesia, and the Philippines, where capital market activity doubled from 1993 to 1995, from \$5.5 billion to almost \$11 billion.

■ USAID supplied agricultural technology to countries such as Guinea, Mali, and Senegal, raising agricultural production. USAID helped Costa Rica, Ghana, and Malawi increase exports of nontraditional agricultural products by more than 100 percent.

### Expanding Access And Opportunity

USAID programs in 44 countries pursued this objective in 1996.

■ USAID supported registration of more than 256,000 land titles in Albania, and 9,500 land titles in Honduras.

■ In Ecuador, between 1992 and 1995, USAID helped train 1.7 million low-income people in microenterprise development. USAID helped more than 10,000 small agricultural producers move their produce from local to national and international markets.

■ Fourteen USAID-supported projects in countries such as Bangladesh, Bolivia, Guinea, and Kyrgyzstan provided credit to 282,000 women micro-entrepreneurs.

### Expanding and Improving Basic Education

USAID programs in 22 countries pursued this objective in 1996.

■ USAID encouraged increased budgetary support for primary education, which now accounts for at least 50 percent of the education budgets in Benin, Ethiopia, and Malawi. Nonsalary expenditures also increased in these countries. In Guinea, for example, they rose from less than 7 percent in 1989 to 20 percent in 1995.

■ USAID assistance to the Honduras Ministry of Education established minimum learning objectives and provided educational materials and teacher training throughout the primary education system. As a result, test scores have risen nearly 80 percent since 1991.

■ USAID helped more than 260,000 women become literate. For example, in Nepal 28 percent of women are now literate, up from 22 percent in 1991.

# Achieving Broad-Based Economic Growth

USAID helps developing countries achieve the broad-based, rapid, and sustainable economic growth required to reduce poverty, increase incomes, and enhance food security. Free-market economic growth is also essential to achieving goals in democracy, environment, health, and family planning, and to sustaining those achievements. Economic growth in developing countries also benefits the United States—directly through increased trade and indirectly through its effects on democracy, environment, and world social conditions.

Domestic efforts in developing countries are largely responsible for broad-based, sustainable economic growth. Without them, little can be achieved. Factors include sound policies and strong institutions that support private markets, as well as public investment in human resources and infrastructure. USAID and other donors play a supporting role, supplying resources and technical assistance to bolster policy reforms, capacity-building, and human investments through basic education.

Catastrophes and chaos are the stuff of headlines. It is no wonder that people reading about **Somalia** and **Rwanda** believe that conditions for people in the third world are deteriorating. This impression is

mistaken, however, since economic progress in the developing world has been substantial, enabling longer and more productive lives for ordinary people in these countries. Even in Africa, growth performance is improving, mainly owing to more widespread implementation of policies and institutional arrangements that promote economic and social progress.

U.S. economic assistance has played a major role in encouraging this trend. The United States also reaps the benefit of more rapid expansion in exports in response to expanded open markets. Further, a significant and growing number of former major USAID recipients no longer require concessional aid.

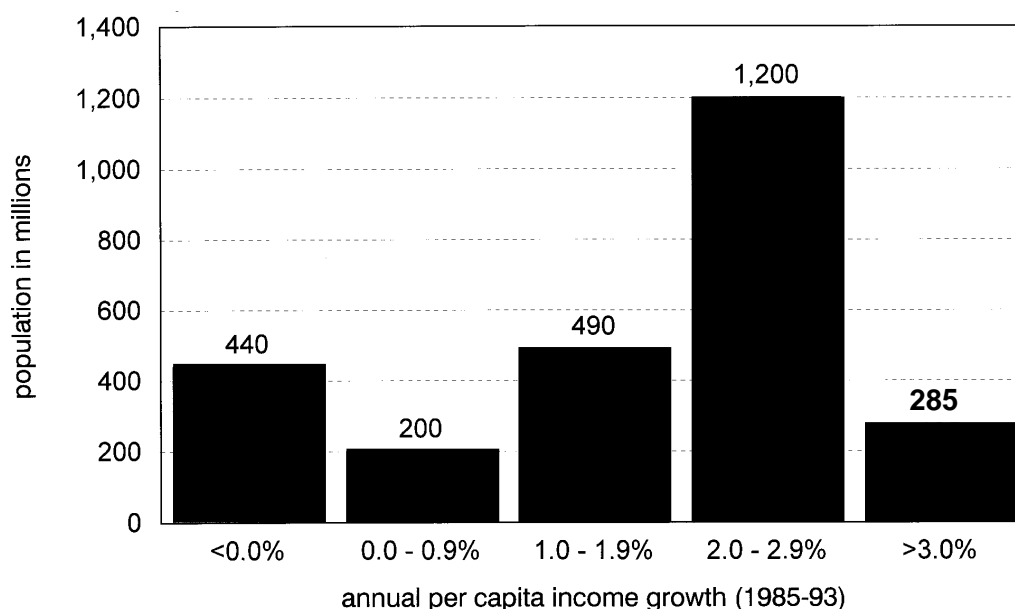
## Economic Growth Performance

Contrary to popular perceptions, a substantial majority of people in the developing world live in countries that are making significant economic progress. Figure 1.1 summarizes economic growth trends from 1985 through 1993 for the 63 U.S. bilateral assistance recipient countries. These countries have a combined population of 2.6 billion.

Eight of the countries, with a population of 285 million, achieved per capita growth rates exceeding 3 percent a year. They include **Botswana, Chile, Indonesia, and Thailand**. About 1.2 billion people are in a second group of 15 countries where per capita annual growth was in the 2–3 percent range. These countries include **Bangladesh, India, Nepal, Sri Lanka, and Uganda**. Growth rates in this group were the same as or higher than for most Organization for Economic Cooperation and Development (OECD) countries. For instance, the United States' per capita growth rate for the period was 1.3 percent.

A third group (11 countries, 490 million people) achieved per capita growth in the 1–2 percent range. That matches the long-term historical growth of the United States and most other OECD countries. It is sufficient to make at least some headway in reducing poverty. These included **Bolivia, El Salvador, Guatemala, Jordan, Paraguay, the Philippines, Mali, and Namibia**. A fourth group (12 countries, 200 million people) grew by less than 1 percent a year. **Kenya, Mexico, and Tanzania** are the largest countries in this group. Finally, 22 countries with 450 million people experienced economic decline. Five countries (**Algeria, Brazil, Ethiopia, Peru, and**

**Figure 1.1. In Developing World, Incomes Are Growing for Most People**



Source: World Bank Development Report 1996.

**South Africa**) account for three quarters of the population of this group. Political instability was a serious problem for many of these countries.

Among regions, growth performance has been particularly robust in Asia, including south Asia, which averages an annual growth rate of 5.2 percent in gross domestic product (GDP). This has huge positive implications for reducing poverty globally, because south Asia accounts for two thirds of the people living in aid-recipient countries. The economies of countries in Latin America and the Caribbean have also been growing faster in recent years, following a period of crisis during the 1980s. From

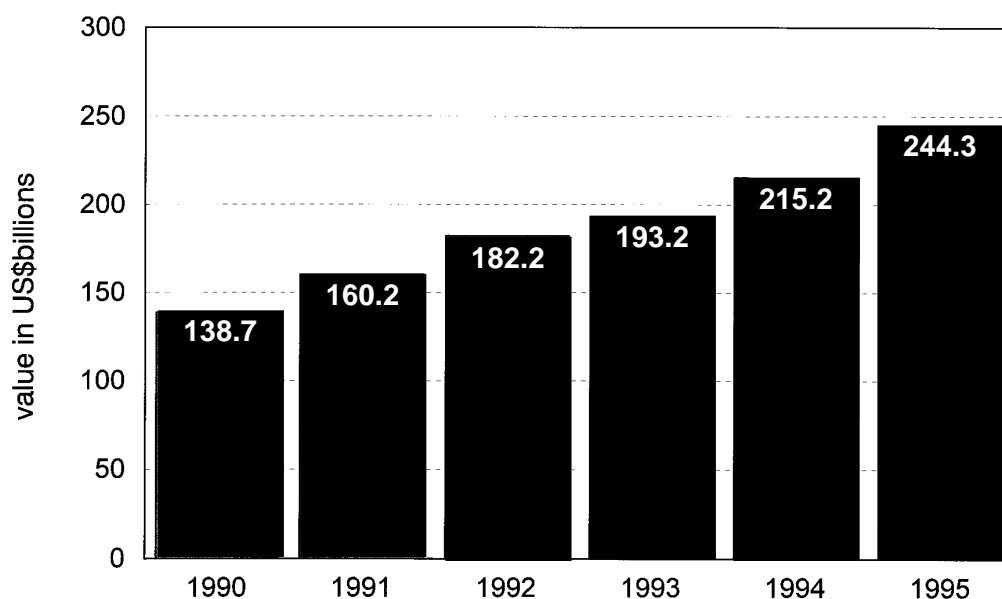
a global perspective, recent improvement in food security is also encouraging. A number of highly populated and food-insecure Asian countries (**Bangladesh, India, and Indonesia**) have made significant positive strides.

### Implications for U.S. Economic Growth

Accelerated economic growth in USAID recipient countries has benefited the United States. It has meant increased U.S. foreign trade and investment, which has created new jobs, protected existing jobs, and generated higher

incomes for U.S. citizens. U.S. exports of goods and services have increased rapidly over the past decade, substantially faster than those of any other major industrial country. U.S. exports to developing countries have been particularly buoyant (see figure 1.2). They now account for 44 percent of U.S. exports. Likewise, U.S. direct investment expanded at a faster pace in the rapidly growing aid recipient countries. U.S. direct investment in developing countries grew from \$21 billion in 1990 to \$35 billion in 1994. The average annual growth rate was 14.2 percent, reflecting the improved investment climate in most of these countries (see table 1.1). This dwarfs U.S.

Figure 1.2. U.S. Merchandise Exports to Developing Countries



Source: Survey of Current Business, August 1995.

development assistance for economic growth of about \$2.7 billion in fiscal year 1996.

Among developing countries, those with sound government policies and greater economic freedom attract more U.S. exports and direct investment. From 1985 through 1994, U.S. exports rose by more than 150 percent to countries ranked in the top half by USAID appraisals of economic performance or either of two measures of economic freedom. For countries in the bottom half, U.S. exports rose by less than 40 percent during that period. Econometric analysis of these links confirms a strong correlation between economic freedom and the growth rate of U.S.

exports to and direct investment in a country. USAID programs create the enabling environment in which economic freedom can flourish.

#### Has Growth Been Broadly Based?

Recent pessimism concerning developing countries stems from the belief that economic growth benefits only the well-off, whereas the poor experience stagnation or deterioration. This is contrary to experience.

Empirical evidence on trends in poverty in developing countries confirms the conclusion that *economic growth reduces poverty*. Analysis by

USAID and the World Bank indicates that economic growth almost always benefits the poor.

In a sample analyzed by USAID, economic growth benefited the poor 95 percent of the time, Brazil being the sole exception.

*The faster the rate of growth, the faster the rate of decline in poverty.* USAID analysis revealed a high correlation coefficient (0.8 percent) between these two variables. A growth rate of 2 percent in per capita income is associated with a rate of decline in the incidence of poverty of 2.5 percent. Over the course of two decades, such growth would cut by half the proportion of the population

**Table 1.1. U.S. Exports to and Investment In USAID Recipient Countries**

| U.S. Merchandise Exports (\$ billions) |       |       |                        |
|--|-------|-------|------------------------|
|  | 1990  | 1995  | Percent Change 1990-95 |
| Sub-Saharan Africa                     | \$4.0 | \$5.4 | 35                     |
| Asia and the Near East                 | 35.0  | 63.0  | 80                     |
| Latin America and the Caribbean        | 54.0  | 95.0  | 76                     |
| Europe and the new independent states  | 4.8   | 6.0   | 25                     |
| Total developing countries             | 139.0 | 244.0 | 76                     |
| U.S. Direct Investment <sup>a</sup>    |       |       |                        |
| Sub-Saharan Africa                     | 1.2   | 2.4   | 100                    |
| Asia and the Near East                 | 7.0   | 11.0  | 57                     |
| Latin America and the Caribbean        | 12.0  | 19.0  | 58                     |
| Europe and the new independent states  | 0.1   | 3.1   | 3,100                  |
| Total developing countries             | 21.0  | 35.9  | 71                     |

<sup>a</sup> Direct investment data are for 1990 and 1994.

that is poor. In **Indonesia**, for example, a 3.7 percent average annual rate of growth in per capita income during 1970-90 caused the incidence of poverty to fall from 60 percent to 15 percent. In **Uganda** per capita income grew at 3.5 percent during 1987-95, and the incidence of poverty declined to 34 percent from 53 percent.

*Economic decline increases poverty.* In **Côte d'Ivoire**, gross domestic product declined an annual rate of 2.7 percent from 1985 to 1990, and poverty increased from 14 percent to 20 percent.

The condition of poor people worldwide, measured in terms of social indicators, has improved thanks to advances in

technology and medical research and wider dissemination of the new knowledge. This has been especially important for women and children, who make up the majority of the poor. A recent World Bank analysis of the conditions of the poor suggests that the most impressive gains took place in the faster growing economies of south Asia. Some examples:

■ Worldwide, in low-income countries, fertility rates have declined from 5.6 births per woman in the early 1970s to 3.3 in 1994. Over this period, fertility declined by 40 percent in south Asia and by 10 percent in sub-Saharan Africa.

■ Access to education has increased significantly, especially for girls. In south Asia, primary school enrollment rates increased sharply. In sub-Saharan Africa, enrollment rates increased from 40 percent in 1970 to 65 percent in 1993 (although retention, completion, and achievement remain low, especially for girls).

■ Preventive health care is reaching far more people. For example, childhood immunization against measles in low-income countries rose from 50 percent in 1985 to 86 percent in 1992. The most dramatic increase has been in south Asia. Access to preventive health care in south Asia rose from 54 percent of the population in 1980 to 96 percent by 1990. (Maternal mortality, however, is still the highest in the world.) During the same time period,

access to safe water increased from 50 percent of the population to 70 percent in both Africa and south Asia.

■ As a result of these improvements, children born in low-income countries in 1994 can expect to live, on average, 10 years longer than those born 20 years ago.

More than 56 percent of the world's one billion poor people (excluding **China**) live in south Asia. Faster economic growth than in earlier decades has helped reduce poverty there. Another 24 percent of the world's poor live in sub-Saharan Africa, which has yet to experience satisfactory economic growth.

The slowest growing economies there present the most serious challenge. Some of these countries have even experienced increases in infant mortality, decreases in life expectancy, and increased child malnutrition as the provision of social services has deteriorated. Such cases, however, are associated with economic declines, and usually with political instability, not with economic growth.

## Transition Countries

The challenge of the past decade for transition countries—those that were formerly communist—has been quite different. These countries were already “developed” in the sense that health conditions were typically good and education levels were high. But they were quite “underdeveloped” in two areas: participation in political institutions, and the existence of a market-based, private sector–driven economic infrastructure.

Economic and political reforms are inextricably intertwined. Both require profound changes in institutions that shape behavior, guide organizations, and embody fundamental rules of the game. Further, such changes are needed quickly, because most countries are in crisis as transition begins. Accordingly, the transition process may involve an initial sharp decline in GDP.

The countries of central and Eastern Europe and the Baltic republics—where reform programs have been strongest and communist institutions less deeply ingrained—have for the most part moved past the period of decline and achieved positive growth in 1994 and 1995. The region of the new independent states (excluding the Baltic countries) is less advanced in the transition process and is still experiencing economic decline.

## Graduation

Twenty-five countries classified as developing when the first *World Development Report* was issued in 1978 can now be considered graduates. They have relatively high incomes and social indicators. Most have sustained reasonably rapid growth for an extended period. Most do not depend, largely or completely, on economic aid. And some have become aid donors. In fiscal year 1995, **Costa Rica** was added to the list of graduated countries. By and large, graduating countries no longer receive USAID bilateral economic growth assistance.

## Objectives and Strategic Approaches

USAID's primary economic growth objective is to promote conditions whereby incomes, particularly those of the poorest, can rise rapidly and sustainably. Since incomes are determined mainly by productivity, USAID seeks to raise productivity of all workers, including women, through access to education and improvements in institutions. USAID's approach varies with country conditions, but generally seeks to encourage governments to provide essential public services more effectively, and promote vibrant and competitive private markets for producing and distributing most goods and services.

In the poorest countries, the agricultural sector usually dominates, in terms of both employment and production. Low average productivity and the vagaries of weather make life in these countries usually precarious and insecure. With proper policies, technology, and institutions, agricultural productivity can be raised rapidly. That not only boosts incomes and food consumption standards, it also frees large numbers of workers to produce other goods that increase human welfare. This transition requires the people in developing countries, both individually and collectively through governments, to develop new institutions, new skills, and new approaches.

As a country's economy becomes more diversified, open participation in the world economy through low tariffs and appropriate exchange rates becomes more critical. Participation acts both as a spur to efficient production and a means for transferring technology. Countries such as those in the former Soviet bloc that cut themselves off from the international economy suffered severe inefficiencies.

USAID's long experience in promoting economic growth and its cadre of professional in-country staff provide the basis for collaborative and participatory approaches with host governments, international financial institutions, other donors, and private-sector firms. In 1995, USAID helped build a robust market-oriented, private sector-driven economy to achieve rapid, broad-based growth with 80 programs in 63 countries.

USAID pursued three intermediate objectives: increased efficiency and expansion of markets (58 countries), expanded access and opportunity for the poor, including women (44 countries), and increased human productive capacity through basic education and skills training (22 countries). Figure 1.3 and table 1.2 provide details. The remainder of this chapter presents results under these three objectives.

Information on results of USAID programs are drawn from Results Review and Resource Request reports (R4s), as well as evaluations, special studies, sector assessments, and other materials from Agency reports.

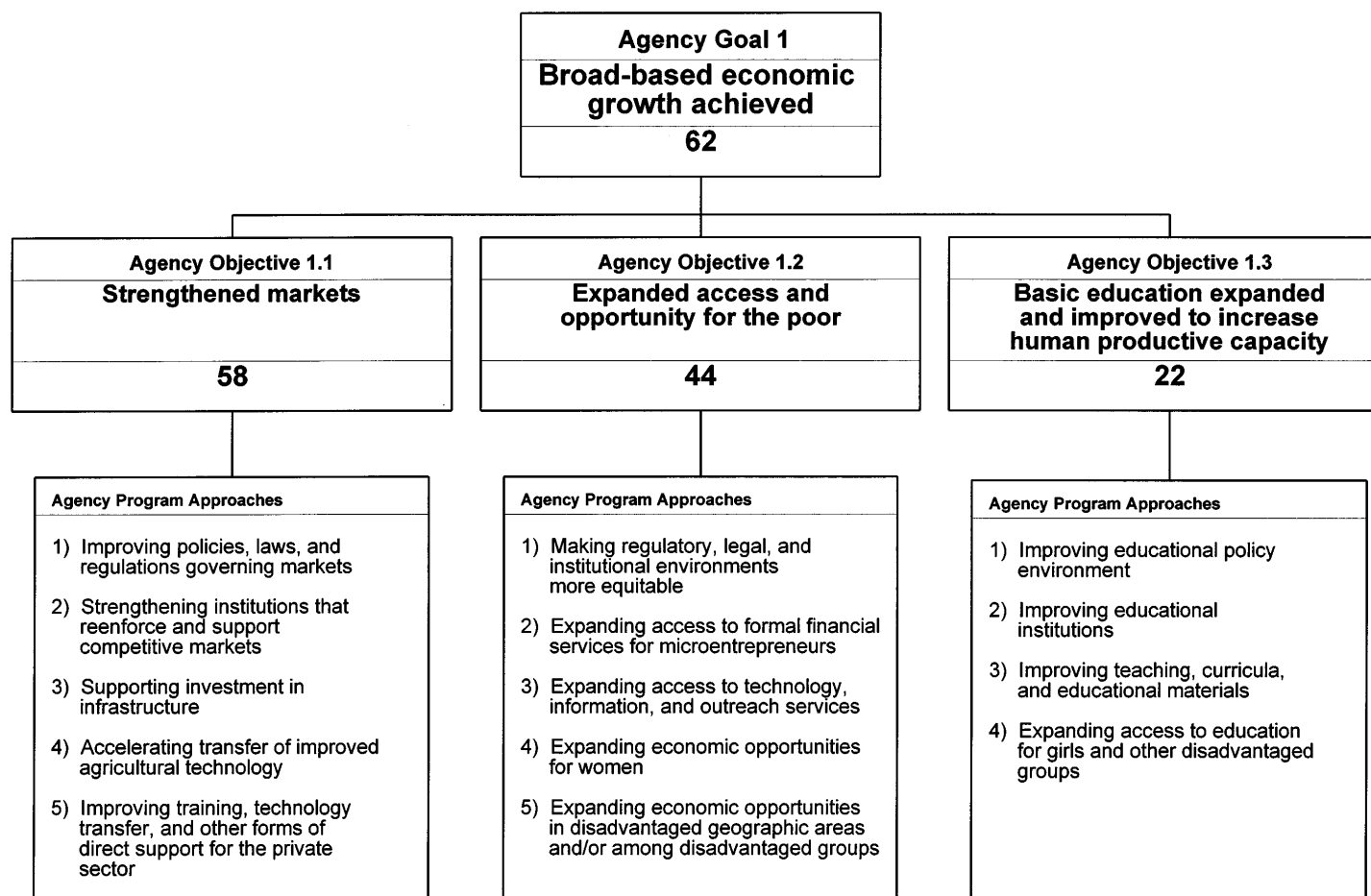
The following sections highlight results achieved over the past year in each of the three objectives in economic development.

## Strengthening Markets

In 1996, USAID helped 58 countries strengthen markets. As shown in figure 1.4, USAID used a combination of approaches: improving policies, laws, and regulations; strengthening institutions; improving infrastructure; accelerating the development and transfer of agricultural technology; and providing direct support for the private sector.

The most frequent USAID activity, recorded in 58 countries, is assistance to improve policies, laws, and regulations that govern market activities. USAID helped 47 countries strengthen the institutions, processes, and systems that support and reinforce markets. In 19 countries, USAID provided support to improve infrastructure and modernize telecommunication systems. The Agency helped build rural roads and railways and boost electric power generation, transmission, and distribution. The Agency helped another 14 countries increase agricultural productivity. In 38 countries, USAID provided direct assistance to private firms, cooperatives, and entrepreneurs to bolster productivity, competitiveness, and profitability.

**Figure 1.3. Economic Growth Strategic Framework 1996: Number of Country Programs Contributing to Each Objective**





**Table 1.2. Programs Contributing to Agency Economic Growth Goal in 1996**

|   | <b>Africa</b>   | <b>Asia and the<br/>Near East</b>   | <b>Europe and the<br/>New Independent<br/>States</b>  | <b>Latin America<br/>and the<br/>Caribbean</b>  | <b>Total</b> |
|---|---|---|---|---|--------------|
| Number of programs  | 27  | 15  | 29  | 16  | 87           |
| Number of countries with economic growth strategies   | 18 (66%)  | 13 (86%)  | 20 (67%)  | 13 (80%)  | 63 (72%)     |
| Objective 1.1:<br>Strengthened markets  | Ethiopia, Ghana, Guinea, Guinea-Bissau, Kenya, Madagascar, Malawi, Mali, Mozambique, Niger, Senegal, South Africa, Tanzania, Uganda, Zambia (15)                    | Bangladesh, Cambodia, Egypt, India, Indonesia, Jordan, Lebanon, Mongolia, Morocco, Nepal, Philippines, Sri Lanka, West Bank-Gaza (13) | Albania, Armenia, Belarus, Bulgaria, Croatia, Czech Republic, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovakia, Ukraine, Uzbekistan (19) | Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Peru (11) | 57 (66%)     |
| Objective 1.2:<br>Expanded access and opportunity for the poor                                | Ethiopia, Ghana, Guinea, Guinea-Bissau, Kenya, Madagascar, Malawi, Mali, Mozambique, Namibia, Niger, Senegal, South Africa, Tanzania, Uganda, Zambia, Zimbabwe (15) | Bangladesh, Cambodia, India, Indonesia, Lebanon, Morocco, Nepal, Philippines, Sri Lanka, West Bank-Gaza (10)                          | Albania, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Poland, Romania, Slovakia, Ukraine (9)   | Bolivia, Dominican Republic, Ecuador, El Salvador, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Peru (10)           | 44 (51%)     |
| Objective 1.3:<br>Basic education expanded and improved to increase human productive capacity | Benin, Burundi, Ethiopia, Ghana, Guinea, Malawi, Mali, Namibia, South Africa, Tanzania, Uganda (12)   | Cambodia, Egypt, India, Morocco, Nepal (5)  |   | Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua (8)                        | 22 (30%)     |

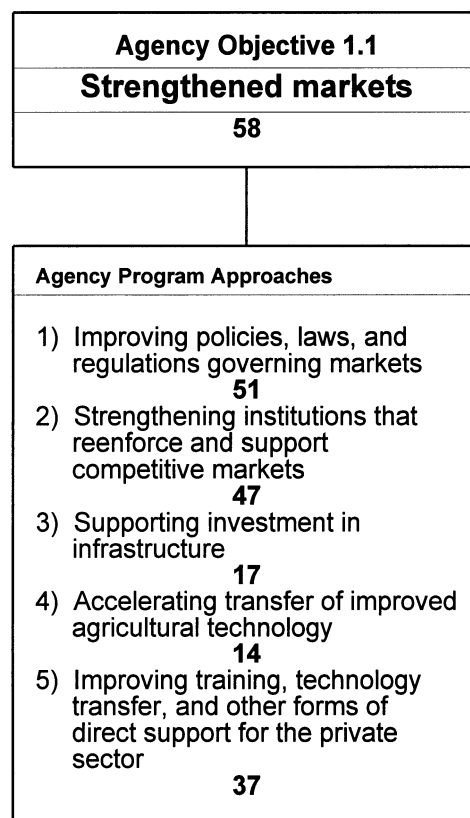
## Improved Policies, Laws, and Regulations Governing Markets

Empirical evidence shows that economic freedom is highly correlated with broad-based economic growth. There is general agreement on the types of policies that promote growth, and aid recipients are increasingly willing and able to implement such policies. USAID's internal appraisals of recipient policies within the control of policymakers provide evidence of these trends.

For several years, the Agency has used cross-country data on basic economic policies (including budget deficits, inflation, exchange rates, and trade policies) to score the policy performance of USAID recipient countries. There has been a clear positive trend in average country scores over the past several years, indicating steady improvement in economic policies.

This continued in 1995, with scores rising for 34 of the 49 nontransition recipients of USAID assistance. **Benin**, the **Dominican Republic**, **Ethiopia**, **Guatemala**, **Haiti**, **Honduras**, **Madagascar**, **Mali**, **Niger**, and **Senegal** made major policy improvements. In only five cases was a decline greater than 10 points (**Bangladesh**, **Ghana**, **Mexico**, **Tanzania**, and **Zimbabwe**). Economic growth performance of USAID countries has also improved (see table 1.3).

**Figure 1.4. Number of Country Programs Contributing to Agency Objective 1.1**



Recent progress has been particularly notable in Africa. Many African countries eased foreign exchange controls, eliminated obstacles to business ownership, and reduced bureaucratic delays and corruption in business licensing. As a result, foreign direct investment increased from \$80 million in 1981–85 to \$315 million in 1991–93 (excluding Nigeria and South Africa). Likewise, gross domestic investment increased from 18 percent of GDP in 1985–90 to 21 percent in 1991–94, reflecting increased eco-

nomics freedom. In **Zambia**, an outside evaluation in 1995 of the USAID-supported Privatization of State-Owned Enterprise project concluded that results so far have made it potentially one of the most successful private sector initiatives in Africa.

USAID-supported policy reform has contributed to increased exports by African countries. **Zimbabwe** stands out as a successful example. Zimbabwe achieved a record \$2 billion in merchandise exports

**Table 1.3. Trends in Economic Growth Performance, by Region**

| GDP Growth Rate                       |                                |   |   |   |   |   |   |
|---------------------------------------|--------------------------------|---|---|---|---|---|---|
| Region                                | Total Number of Aid Recipients | 1992  |   | 1993  |   | 1994  |   |
|                                       |                                | Number of Countries with Positive Growth Rate | Number of Countries with Negative Growth Rate | Number of Countries with Positive Growth Rate | Number of Countries with Negative Growth Rate | Number of Countries with Positive Growth Rate | Number of Countries with Negative Growth Rate |
| Africa                                | 28                             | 13  | 15  | 9   | 19  | 5   | 23  |
| Asia and the Near East                | 13                             | 2   | 11  | 2   | 11  | 0   | 13  |
| Europe and the new independent states | 23                             | 21  | 2   | 20  | 3   | 11  | 12  |
| Latin America and the Caribbean       | 16                             | 2   | 14  | 2   | 14  | 2   | 14  |
| Total                                 | 80                             | 38  | 42  | 33  | 47  | 18  | 62  |

**Countries with the highest economic growth rate for 1994**

Guinea-Bissau 6.4%, Mozambique 5.4%, Namibia 5.7% and Uganda 5.2%, Morocco 11.2%, Indonesia 7.1%, Nepal 6.9%, Yemen 6.0%, Jordan 5.4%, and India 5.2%; Albania 7.4%, Armenia 3%, and Poland 5.5%; El Salvador 6.3%, Guyana 9%, Jamaica 9.4% and Peru 13%

**Countries with the lowest economic growth rate for 1994**

Malawi -10.7% and Zambia -3.8%, Egypt 2%; Georgia -28.2%, Ukraine -24.3%, Kyrgyzstan -26.5%, Azerbaijan -21.9%, Belarus -21.5%, Kazakstan -25%, Russia -12.6%, Tajikistan -15%, and Uzbekistan -4.5%; Haiti -10.6%, Honduras -1.5%, and Nicaragua 2%

in 1995 from unification of exchange rates, relaxation of import restrictions, and liberalization of the agricultural sector. Horticultural exports increased by 32 percent in tonnage and 79 percent in value.

In **Ghana** the government abolished foreign exchange controls and deregulated a range of nontraditional exports, spurring a 30 percent increase

in nontraditional exports in 1994 to \$180 million. Overall, sub-Saharan Africa as a group achieved significant economic expansion because of market liberalization. Nineteen out of 26 countries registered economic growth exceeding 2 percent a year.

USAID recipient countries in Asia and the Near East pursued policy and regulatory reforms in 1995 that would expand citizens' economic freedom in order to buttress economic growth and reduce poverty. USAID worked in the **Philippines** to improve trade policies and tax administration. In **Indonesia**, USAID supported trade liberalization and reduction in monopolistic arrange-

ments for the domestic market. Widespread policy and regulatory reform efforts have encouraged investment, with **India** leading the way. Foreign direct investment flows to the Asia–Near East region have also jumped, from less than \$0.5 billion in 1982 to about \$3 billion in 1994. Since 1988 the region's exports have grown 10–12 percent a year.

In Europe and the new independent states, USAID helped expand the role of the private sector. In most countries, small and medium-size firms have been privatized. By 1995, the private sector in **Albania, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Russia, and Slovakia** produced more than 50 percent of GDP, up from an average of less than 12 percent in 1989. USAID has been active in both promoting privatization and restructuring government for its changed role in a market economy.

With USAID assistance, **Kazakhstan** approved a new tax code regarded as the most efficient and equitable of any former Soviet Republic. In **Russia**, USAID helped draft a civil code, most of which went into effect in 1996. The code establishes fundamental principles of civil and commercial law and guarantees both freedom of contract and protection of private property. The code will also help protect against the proliferation of financial crimes, which undermines confidence in the market.

USAID support for structural adjustment and policy, legal, and regulatory reforms helped turn around the economies of aid-recipient countries in Latin America and the Caribbean. **Costa Rica** defaulted on its foreign debt in 1982 and dropped into an economic crisis largely caused by restrictive government policies. By 1996 it had recovered from its economic crisis and graduated from USAID assistance.

With technical assistance from USAID, Costa Rica liberalized its economy and private sector activities. It eliminated controls on most prices, foreign exchange, and interest rates. It opened its market to international competition, privatized most state-owned enterprises, and strengthened environmental protection. The emerging private banking sector financed an export boom that increased wages and reduced poverty. USAID has helped **El Salvador** and **Guatemala** implement similar reform programs, also with substantial success. USAID helped **Nicaragua** achieve 4 percent GDP growth, the first significant increase there in more than a decade.

### Strengthening Institutions

In many USAID recipient countries, weak institutions hamper development of an expanding and vibrant domestic market. The Agency continued to provide a range of technical assistance to host countries in an effort to strengthen institu-

tions that support and reinforce markets. Weaknesses addressed by USAID programs include

- Unstable financial systems, direct controls on credit rather than market pricing, politically motivated lending, and crowding out by the public sector
- Lack of indigenous organizations capable of providing analytical support to policymakers on key economic issues

In most developing countries, problems associated with finance are among the top constraints to growth. Limited access to financial services raises the cost of capital. The Agency helps create competitive, efficient financial systems in a number of countries, promoting privatization and restructuring of the banking sector, strengthening bank supervision, and promoting capital market development.

Strengthening financial institutions is a USAID priority in **Croatia, the Czech Republic, Estonia, Hungary, Lithuania, and Poland**. With USAID assistance in bank supervision, the Bank of Lithuania examined the practices of commercial banks and identified major problems. The bank subsequently closed 10 banks to prevent further losses to depositors and maintain the integrity of the banking system. In Poland, improved bank supervision helped reduce nonperforming and doubtful loans from 35 percent of total credit in 1993 to 25 percent in

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1995. Stock market and bank transactions are now conducted more efficiently. Clearing and settlement of stock market trades occurs within three days, and interbank transfers and payment orders are cleared in four days. Two years ago these transactions took several weeks.

In **India, Indonesia, the Philippines, Slovakia, and Sri Lanka**, USAID assisted in the development of capital markets to mobilize foreign and domestic capital and improve the efficiency of its allocation. For India, Indonesia, and the Philippines combined, funds raised in the capital market doubled from 1993 through 1995, from \$5.5 billion to almost \$11 billion.

In Indonesia, USAID helped privatize the Jakarta Stock Exchange and draft a new capital markets law. It also strengthened the agency that has become a regulatory and supervisory body similar to the U.S. Securities and Exchange Commission. As a result of these reforms, both foreign and domestic investors have gained confidence in the transparency and liquidity of the exchange. USAID assistance to Indonesia has also helped create a second mortgage facility to reduce costs to home owners, open access to formal financial markets for millions of Indonesians, and increase housing construction.

USAID is also working to strengthen communication between the private sector and host governments to improve government accountability and transparency. In **Uganda**, USAID brought government and business leaders together in a national forum, which helped introduce several reforms to promote business expansion and new investment. This contributed to an annual growth rate in real private investment by 35 percent since 1993.

In **West Africa**, USAID support brought together 300 African business representatives in the West African Enterprise Network. The network provides local input to policymaking and to economic reform processes. It has been so successful that it became self-sufficient in 1996. The USAID-supported Africa Business Round Table continues to inform and promote greater dialog between the public and private sectors on a number of economic development issues. A USAID-supported small business lobbying organization in **Poland** helped defeat two proposed pieces of legislation that could have a detrimental impact on small and medium-size enterprises.

USAID has also provided assistance in developing indigenous policy research institutions. In **India**, USAID has strengthened the analytical capacity of public economic policy research institutes as well as of private institutes in order to improve NGO economic policy advocacy. In the **Philippines**, USAID's efforts have strengthened the government's tax administration and the policy analysis capability of major private sector exporter associations.

### **Improving Infrastructure**

In 19 countries, USAID supports construction and maintenance of road networks, rail links, telecommunication, and power facilities. Weak infrastructure is a major impediment to the efficient operation of markets and expansion of trade. Infrastructure projects produce more results where economic policies are sound (see box 1.1). Many African countries have smaller and inefficient markets because of weak infrastructure. Rural roads in several countries are passable only during the dry seasons, and the urban road networks are poorly maintained. This results in high vehicle operating costs, higher fares, and long waiting and travel time.

USAID support for rural road rehabilitation increased living standards of rural people by providing cost-effective access to markets and social services. In **Tanzania**, USAID-supported restoration of 1,000 kilometers of rural roads resulted in a 70 percent increase in road traffic, a 50 percent decrease in vehicle operating costs, and a 40

percent decrease in fares. Large increases in the volume of marketed agricultural produce resulted in a 20 percent increase in rural household income. In **Mozambique**, rehabilitation of rural road networks reduced transportation and freight-hauling costs and expanded private transport and freight-hauling capacity. In **Zambia**,

USAID supported rehabilitation of the 53 kilometer Lusaka–Kafue road, an important commercial link. USAID helped repair more than 1,900 kilometers of roads in **El Salvador** between 1992 and 1995. In **Peru** the rehabilitation of 314 kilometers of farm-to-market roads opened markets for bananas, cacao, coffee, palm hearts, and other tropical fruits—to more than 200,000 people.

### Box 1.1. Policy Reform, Infrastructure Development Spur Philippines Economic Growth

In the Philippines, USAID support to the Mindanao Development project, which includes General Santos City, combines policy reform with extensive infrastructure development. Some of the policy reforms carried out by the government of the Philippines are lowered import restrictions and tariffs on agricultural inputs and products, liberalization of banking, an improved tax administration, and introduction of central government transfers, of both functions and revenues, to the state and local government.

Before the regional infrastructure development, the absence of major roads and adequate port and airport facilities hampered the region's ability to market its agricultural produce. High-value crops such as mangoes and cut flowers rotted or wilted before they reached the market. To alleviate these problems and to expand the region's economy, USAID helped build a 110-mile road network, completed in 1994. It also helped modernize the port and airport to accommodate projected volumes of cargo. The new airport will be able to handle planes as large as a Boeing 747. The wharf, being expanded by 45 percent, will have open storage space and grain- and container-handling equipment.

With the improved infrastructure, farmers and other agribusinesses have more efficient means to get their farm produce and goods to markets. Because of the improvements in infrastructure and investment policies, General Santos City in 1995 attracted more than 2,000 potential investors. Large number of investors poured hundreds of millions of dollars into the region and created more than 60 joint ventures. In 1995 the region's nontraditional agricultural exports rose by 18 percent, from \$480 million in 1994 to \$566 million.

USAID assistance rescued the **Swaziland** National Railway from the brink of insolvency. In 1986 the net position (cash plus equity less debt) of the railroad was negative by more than \$40 million. In 1994 the railroad made a profit, before interest and depreciation, of more than \$2.8 million, on revenue of \$20 million. The net position of the railway was positive by \$40,000. The railroad now provides vital freight and passenger transport service.

USAID assistance is also helping revitalize energy and telecommunications. Electric power sector-restructuring in **Hungary** and **Ukraine** progressed rapidly. In Ukraine, the wholesale electricity market began operating in April 1996 under the structure of an independent regulator. Ukraine's eight regional monopolies, which controlled power generation, transmission, and distribution, were separated into 33 joint stock companies to stimulate competition and efficiency. Hungary is preparing to export electric power to

Western Europe. It will complete connection to Western Europe's electric grid in 1997.

In the early 1990s, the **Philippine** energy monopoly, NAPOCOR, suffered from a 1,200-megawatt deficiency in its reserve capacity. NAPOCOR could not raise the capital needed to build new generating plants. With USAID technical assistance, the Philippine government established a build-operate-transfer (BOT) mechanism. With this mechanism in place, NAPOCOR turned to the private sector, and in less than two years independent power producers added 1,233 megawatts to NAPOCOR's generating capacity. The success of BOT in the energy sector led the Philippine government to broaden use of the concept. The national BOT pipeline now includes more than 30 nonpower projects, mostly in transportation.

### Accelerating Transfer Of Agricultural Technologies

USAID's agricultural technology development and transfer programs have boosted agricultural growth in recipient countries by increasing yields and agricultural productivity (see box 1.2). Technology does not work alone but requires a favorable economic environment to produce significant results. In this regard, there is cautious optimism as economic policies improve in developing countries, notably including many African countries.

## Box 1.2. Technology Raises Agricultural Productivity and Incomes

Over the past 30 years, USAID made a substantial investment in developing better agricultural technology. In 1989 USAID targeted \$239 million to agricultural research. In 1994, the Agency allocated \$51 million to developing and transferring agricultural technology. Although funding for agricultural research declined over time, the cumulative effect of agricultural technology research substantially increased the world food supply and strengthened world food security.

As shown in the table below, world grain yields nearly doubled from 1960 to 1991. Increasing productivity and raising farmers' incomes depends on the interrelationship among economic and agricultural policies, agricultural technology, and rural infrastructure. Countries with better economic policies and better rural infrastructure had higher technology adoption rates and, therefore, higher increases in agricultural production.

Overall, investments in agricultural research generated high economic rates of return for a wide variety of commodities under diverse agronomic and climatic conditions. The rate of economic return was much higher in countries with appropriate economic policies and improved rural infrastructure. Estimated economic rates of return range from 15 percent to 90 percent. (For a detailed discussion, see USAID/CDIE, *Investments in Agriculture*, August 1996.)

### Average Yield per Hectare (kilograms) 1960 and 1991

| Region        | Rice    |         |                | Wheat   |         |                | Maize   |         |                |
|---------------|---------|---------|----------------|---------|---------|----------------|---------|---------|----------------|
|               | 1960-61 | 1990-91 | Percent Change | 1960-61 | 1990-91 | Percent Change | 1960-61 | 1990-91 | Percent Change |
| Africa        | 1,120   | 1,602   | 43             | 595     | 1,394   | 134            | 900     | 1,174   | 30             |
| Latin America | 1,790   | 2,434   | 36             | 1,095   | 2,080   | 90             | 1,165   | 2,008   | 72             |
| Far East      | 1,700   | 3,558   | 109            | 840     | 2,594   | 209            | 930     | 3,316   | 257            |
| Near East     | 2,875   | 4,564   | 59             | 950     | 1,844   | 94             | 1,550   | 4,383   | 183            |
| North America | 3,835   | 6,248   | 63             | 1,520   | 2,408   | 58             | 3,285   | 7,116   | 117            |
| World         | 1,980   | 3,516   | 78             | 1,230   | 2,526   | 105            | 2,055   | 3,712   | 81             |

Source: FAO, Production Yearbook; USAID/CDIE, *Investments in Agriculture*, August 1996

For 1994–95 a number of African countries showed high agricultural growth rates: **Mali** (8.0 percent), **Senegal** (6.7 percent), followed by **Guinea** (5.1 percent). Overall, 13 out of 21 countries recorded growth rates above 1 percent. In addition, the value of nontraditional agricultural exports increased 265 percent in **Uganda** and 189 percent in **Ghana**. In Mali, grain production rose 44 percent, and in Uganda, maize production soared 63 percent. In **Mozambique**, in 1995, agricultural production of smallholder farmers increased 18 percent and total cereal production rose 43 percent.

USAID efforts have been particularly important in the Latin America and Caribbean region. Most countries have established appropriate macroeconomic policies to encourage exports, and USAID-supported projects seek to speed the entry of firms into export markets. Most countries registered export growth rates over 10 percent per year.

In **El Salvador**, USAID assistance in improving product quality led to \$30 million in additional export revenues. In **Jamaica**, foreign exchange earnings in USAID-targeted areas—including the garment industry, information processing, and tourism—totaled \$1.5 billion in 1995, an increase of 7 percent over 1994 earnings. Employment in this area increased by 2.6 percent.

### Box 1.3. Textbook Translation Makes a Profit

In the fall of 1994 USAID's highly successful university textbook distribution program for Latin America became an independent commercial operation incorporated in Delaware with no need for further Agency funding. Since 1986, the program had been managed by Books, Information, and Service (BIS), a USAID contractor in Mexico City. BIS provides Latin American students with Spanish-language editions of up-to-date, pedagogically efficient textbooks originally published in the United States. BIS sells more than 500,000 textbooks annually, generating over \$5 million a year to publishers' outlets in Mexico City. Approximately 12 percent of this revenue is repatriated to royalties to publishers in the United States.

BIS has served more than a million students with affordable, modern texts and has improved teaching practices of instructors at over 250 universities in 12 countries. Along with textbook distribution and adoption, BIS promotes more effective use of texts in the classroom through training workshops for professors. It has begun responding to demand for materials beyond the university level, filling orders from Ecuador, El Salvador, Guatemala, Nicaragua, and Uruguay. In these countries, ministries of education, private elementary and secondary schools, and alumni associations of U.S. participant trainees have requested textbooks.

Earnings in USAID-assisted agricultural exports, including yams, cocoa, and smallholder coffee, reached nearly \$25 million. In **Nicaragua**, the value of USAID-supported nontraditional exports increased by 23 percent, from \$13.5 million in 1994 to \$18.5 million in 1995–96, while the total value of nontraditional agricultural exports rose from \$54 million in 1994 to \$75 million in 1995. In **Peru**, with USAID assistance, 21 new markets opened during 1995 for better designed, higher quality products. Major inroads were made in foreign markets with handi-

crafts, yellow onions, and precooked, frozen yellow potatoes.

In Latin America and the Caribbean, USAID support for translating technical textbooks for university students has reached sustainability (see box 1.3). USAID also had success in Asia. In **Sri Lanka**, in 1995, USAID-assisted enterprises created 6,867 jobs; domestic sales of assisted firms rose to \$130 million, and exports to \$46 million. In addition, domestic sales of participants in the Technology Innovation for the Private Sector project

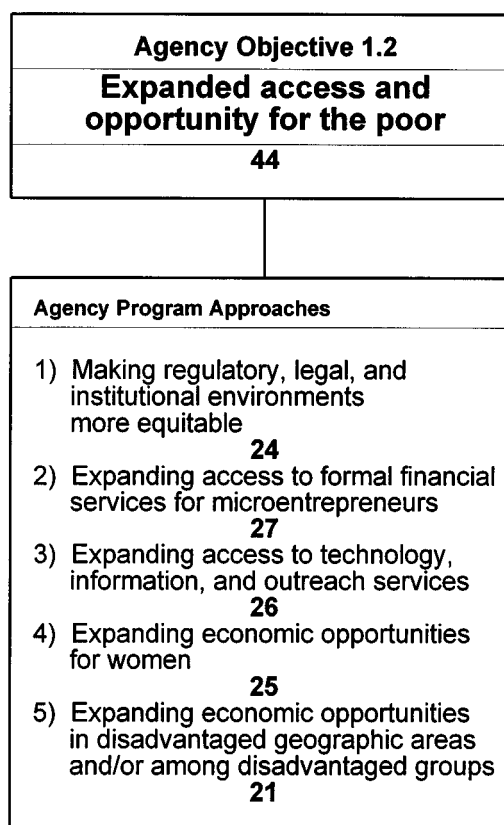


soared 300 percent, to \$104 million. Their exports increased by 150 percent, to \$33.1 million. The project generated 2,244 new jobs in 1995.

## Expanding Access And Opportunity For the Poor

In 1996, USAID programs in 44 countries were working to expand access and opportunity for the poor, particularly for women and other disadvantaged groups. As shown in figure 1.5, USAID helped host countries try a variety of approaches: regulatory, legal, and institutional reform; improved access to formal financial services for microentrepreneurs; expanded access to technology information and outreach services; and more economic opportunities for women and other disadvantaged groups (see box 1.4).

**Figure 1.5. Number of Country Programs Contributing to Agency Objective 1.2**



## A More Equitable Regulatory, Legal, and Institutional Environment

In 1995, USAID programs in 22 countries assisted in implementing policy, regulatory, and institutional reforms to encourage increased participation by the poor, particularly women. Reforms supported by USAID include liberalizing and restructuring markets to expand market access by rural dwellers; extending legal protection to women and allowing rural investors to expand financial

service to the poor; instituting land reform and land titling; and privatizing housing.

In **Mali**, an extensive market-restructuring program begun with Agency support in the early 1980s dramatically improved national and household food security and income. The production of staple food has steadily increased, so locally produced food available per capita has almost doubled from a decade ago. The purchasing power of Malians, who

are predominantly farmers, increased substantially, while GDP per capita grew 2.6 percent a year since 1985. Today, Malians are better able to meet their food needs. In **Zimbabwe**, USAID's Business Development project helped formulate antitrust legislation, effectively lowering market entry barriers for small and medium-size businesses.

Secure property rights for the poor results in greater access to credit, more investment, and better upkeep of houses, workshops, and farms. Property rights also raise property values. A recent study in the **Philippines** found that providing a deed for a property raised its value by a third. In **Indonesia**, onerous titling regulations add 10–30 percent to the cost of buying land. In **Peru**, before recent reforms, obtaining a deed involved 207 bureaucratic steps, divided among 48 government offices; on average it took 43 months and cost 10 weeks' worth of the official minimum wage.

In **Honduras**, USAID supported registration of agricultural land titles, leading to an 80 percent increase, to more than 9,600, in the number of titles registered. Liberalizing the fertilizer market also enabled farmers' income to increase. With USAID assistance, **Albania** issued more than 256,000 final land titles, and in **Nepal**, commercialization of rural agriculture enhanced the incomes of 607,000 families.

### **Expanding Access to Formal Financial Services For Microentrepreneurs**

Even under the best circumstances, poor people seldom go to banks for loans to finance small-equipment purchases or to deposit savings for safekeeping. This is especially true in rural communities. In USAID recipient countries, merchants willing to sell on credit to poor

customers with good reputations have their own problems gaining access to credit. Legal constraints on collateral prevent merchants from getting financing secured by their inventories or accounts receivable. If merchants want to extend credit to microenterprises and small and medium-size businesses, they typically must use their own capital. In developing countries, banks typically will only make loans secured by real

estate or make unsecured loans to those who give evidence of ownership of real property. Often the liquidity of real estate and farm property determines the willingness of financial institutions to lend to rural businesses and farmers.

In 28 recipient countries, USAID is helping expand access to financial services for microenterprises, smallholder farmers, and rural businesses.

### **Box 1.4. Microenterprises Provide Opportunities**

In Kenya microenterprises have absorbed many of the annual 500,000 new entrants to the labor force. Microenterprises grew by about 20 percent a year over the last five years, reaching 240,000 in 1993. This compares with only 20,000 people employed in formal manufacturing. In 1994, microenterprises (including small and medium ventures) created 250,000 new jobs. At the same time, 150,000 jobs were lost as existing enterprises failed. The net increase: 100,000 jobs.

About 70 percent of them resulted from business expansion. The other 30 percent came from new business startups. Interestingly, microenterprises that expanded from one to more employees increased profits by an average of 30 percent.

Capacity-building of NGOs serving microenterprises has expanded microenterprise lending as well as the provision of other support services. During 1994, USAID-assisted NGOs disbursed 23,661 microenterprise loans. That surpassed the target of 15,000.

Kenya has drawn on the lessons for microenterprise development learned elsewhere. (A 1995 CDIE study, *Maximizing the Outreach of Microenterprise Finance*, identifies these lessons.) At the same time, USAID-supported NGOs have used their operations in Kenya as learning laboratories for expansion to other countries in the region. For example, the Kenya Rural Enterprise Program, the leading microenterprise NGO in Kenya, hosts increasing numbers of visitors from surrounding countries to learn from their successful models. In 1995 the rural enterprise program hosted nearly 100 exchange visitors from Eritrea, South Africa, Sudan, Tanzania, Uganda, and Zimbabwe to find out about the efficacy of the Kenya program.

Access to finances has translated into more jobs, higher incomes, and improved food security. At least five models developed with USAID assistance in Asia are being replicated throughout the developing world:

■ *The Bank Rakyat Indonesia model.* BRI in **Indonesia** was the first state-owned commercial bank to demonstrate that direct lending to microenterprises is profitable. BRI now manages 13 million savings accounts and has two million loan clients.

■ *The Bangladesh Grameen model.* This model involves branch banking directed at the poor, with more than two million (mostly women) borrowers. The USAID-supported Grameen Trust is now working to replicate Grameen activities in **India, Nepal, and the Philippines.**

■ *Microlending by private commercial banks.* Both Hatton in **Sri Lanka** and Danamon in **Indonesia** were the first to lend directly to microenterprises.

■ *Other models.* The Jana Shakthi in **Sri Lanka** is a women-owned poverty lending society. The Sewa Bank in **India** is a self-employed women's association that grew out of the labor movement and was later incorporated as a bank.

A number of microfinance projects in Africa have drawn on these models. For instance, in **Zimbabwe**, in 1995, USAID

assisted in establishing a loan-guarantee program with Barclays and Stanbic Bank. Four months into the program, 40 loans with a total value of \$200,000 were extended to small enterprises. The USAID/**Kenya** experience is described in box 1.5.

In **South Africa**, during 1994–1996, the Small Enterprise Foundation and the Get Ahead Foundation made an estimated 50,430 loans to small enterprises and microenterprises. USAID's \$3.5 million investment leveraged \$7 million in private sector resources, and more than 1,000 business loans were disbursed. USAID also helped communities leverage \$345 million in housing and urban development resources. In **Uganda** in 1995, 10,000 rural businesses received credit through COOP Bank with a repayment rate exceeding 95 percent. In general, credit to expand nontraditional exports helped small firms to penetrate regional and international markets.

USAID assistance in **Bolivia** resulted in 100,000 households receiving microloans in 1995, compared with fewer than 10,000 in 1989. In the **Dominican Republic**, the FondoMicro project helped 22,000 microentrepreneurs establish and expand their businesses, with women constituting almost 50 percent of the loan recipients. In **El Salvador**, with USAID support, more than 80,000 beneficiaries (68 percent men

and 32 percent women) received agriculture and microenterprise credit to improve farm production and to establish small agribusiness ventures. Significant results were also reported in **Armenia, Cambodia, Haiti, and Nicaragua.**

### **Expanding Access to Technology, Information, And Outreach Services**

Dissemination of technology, information, and outreach services also helps expand access and opportunity for the poor. In 1996, USAID applied this approach in 24 countries, with remarkable success.

**Indonesia** reduced poverty from 65 percent in 1965 to 15 percent today. A major factor contributing to this transformation was high-yield rice varieties developed by USAID-supported international research institutions. In **Tanzania**, the transfer of technology to extract edible oil through a regional project created 4,000 seasonal jobs and more than \$1 million in rural income, and it generated significant profits for small-scale metal workshops and artisans in the oilseed industry. In **Ecuador** between 1992 and 1995, USAID-supported technical training helped 1.7 million low-income Ecuadorians participate in the economy by establishing or upgrading microenterprises. In 1995, activities related to nontraditional exports supported the equivalent of 225,000 full-time jobs, up from 98,000 in 1989.

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In **Nicaragua**, USAID-sponsored marketing assistance reached more than 10,100 small producers of corn, livestock, organic coffee, rice, sesame, and soybeans. More than 2,500 sesame and coffee producers doubled their income by organizing themselves to process and market their crop as a group. Total crop sales were just over \$3 million. In addition, direct technical and marketing assistance to 11,000 farmers on small to medium-size farms increased productivity on 3,150 hectares of coffee, including 1,400 hectares of small-scale coffee farms. In **Peru**, 59,688 rural families, mainly from indigenous communities, adopted improved technologies for food production. This resulted in yields of native crops averaging 47 percent over previous yields. Microenterprises in Lima have also developed techniques for marketing apparel by cooperating on a line of children's clothes to be sold in up-scale stores in Lima.

In **Estonia**, the USAID-supported Estonian Small Business Association has successfully represented the interests of its 700 member firms. Through training programs, public information, and legislative advocacy, it has ensured that the interests of small and medium-size enterprises receive fair consideration in economic development and privatization. USAID efforts also helped these smaller enterprises secure earmarked investment funding and fair

legal and regulatory treatment. The association has expanded contact with international organizations and enterprises and attracted substantial European Union and Swedish assistance. In **Moldova**, following a successful demonstration of a USAID-supported farm-restructuring pilot project, the government requested its replication in all 40 districts. The project redistributes land and property of 70 former collective farms and trains Moldovans to run the new agricultural structure.

### **Expanding Economic Opportunities For Women**

As described above, USAID emphasized activities such as microfinance, business training, and agricultural training as important means for giving women economic opportunity. Women in developing countries face greater obstacles accessing economic opportunities than men. Low social status, religious constraints, and family and social norms all limit women's opportunities. In addition, female-headed households tend to be poorer than male-headed ones, meaning they have less access to credit or land.


Women-oriented activities can be the most effective way to have a positive impact on other development indicators, such as caloric intake and health and education levels. Thus, improved economic opportunities for women can benefit both sexes.

In 11 countries, USAID targeted programs specifically to women, including 14 microfinance projects and seven agricultural projects. The 14 microfinance projects span all four world regions and have provided microcredit to an estimated 282,000 women. In **Guinea**, for example, the USAID-sponsored PRIDE activity continued its successful lending program in 1995. This activity provided 10,555 loans for a total value of \$2.8 million, with 68 percent of these loans going to women. A study of 63 PRIDE clients revealed that borrowers' assets had increased from \$460 in May 1992 to \$1,143 by March 1995.

On a larger scale in **Bangladesh** (the country that pioneered microfinance), national commercial banks, with USAID financial support, established 25 poverty lending programs. These programs reached more than 900,000 poor borrowers, of whom 25 percent were women. Bangladeshi women represent less than 5 percent of all other national commercial bank loans. USAID also assisted in implementing successful microfinance projects in central Asian republics and **Kyrgyzstan**, where 75 percent of the clients are women.

In **Nepal**, a USAID-supported NGO exported vegetable seeds to **Bangladesh** and aloe cloth to the United States. In 1995, these sales brought \$11,000 to 200 households in the hills of Rukum District. The government of Nepal, capitaliz-

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ing on this success, now provides production and marketing assistance to approximately 73,000 women in the Rapti zone.

As for business training, a new USAID-supported proactive job placement service in the **Dominican Republic** has dramatically increased job placements for women that it trained. By involving potential employers early in the training process, this NGO was able to provide better targeted training courses in basic business administration for women of the Cibao region. As a result, 96 percent of women trained during the last two years have either found productive employment or started their own microenterprises.

### **Expanding Economic Opportunities for Other Disadvantaged Groups**

A fifth approach to expand access and opportunity for the poor targets disadvantaged groups and disadvantaged geographic areas. In 1995, USAID programs in 21 countries were using this program approach. These disadvantaged groups include people who don't have access to economic opportunity because they are an ethnic, social, or religious minority; live in a remote, inaccessible region; or live in a poverty-stricken urban area.

USAID has made a concerted effort to expand opportunities in historically neglected areas and with ethnic groups that have a high concentration of poor

people. Employment programs target low-income people and large disadvantaged groups. These include the urban poor, the majority black population in **South Africa**, the indigenous populations of Central and South America, and groups that are disenfranchised because of their past political beliefs.

For example, in **Nicaragua**, USAID and its development partners achieved significant results in developing microenterprise and other employment opportunities. This was accomplished by expanding the temporary employment safety net for the poor, and increasing rural employment in productive jobs.

In **South Africa**, USAID sponsored the Black Entrepreneurship and Enterprise Support project and the Black Integrated Cooperative Support Network, which helped historically disadvantaged South Africans. Both efforts resulted in expanded access to credit and capital resources. The enterprise support project and the network sought access to credit and capital especially from financial institutions such as major commercial banks and NGOs. USAID helped by improving citizens' knowledge of South Africa's corporate sector and by improving corporate practices on recruiting procurement firms from the historically disadvantaged sector. The Agency also created opportunities for previously disadvantaged firms to obtain franchises.

USAID helped disadvantaged groups gain access to affordable housing loans. In **Zimbabwe**, USAID helped low-income groups by offering mortgages to groups that usually do not have access to credit for housing, and USAID's Private Sector Housing Program managed to cut the cost of construction of low-income structures by 41–50 percent.

Another USAID-sponsored project in **Sri Lanka**, USAID's Low-Income Shelter Program, helped provide better housing for some of Sri Lanka's poorest families. Since its inception, the program helped more than 62,000 families build or improve their homes. In 1995 nearly 12,000 loans were issued to urban and rural households, 25 percent of which were female-headed. To enable poor families to have access to housing loans, USAID has been working to encourage legal, regulatory, and financial policy changes in 1996. The changes would ensure the sustainability of a private sector-led housing finance market long after the program will end.

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### **Expanded and Improved Basic Education**

The Agency's third economic growth objective is to expand and improve basic education to increase human productive capacity. USAID programs in 22 countries have basic educa-

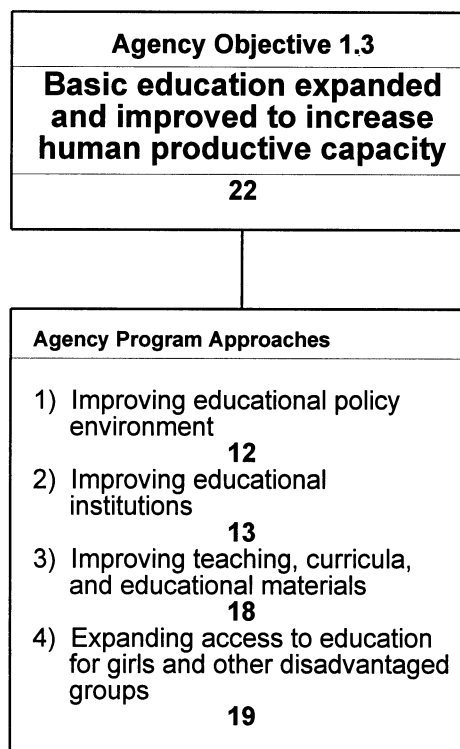
tion objectives (see figure 1.6). Basic education is critical for full participation in the marketplace and necessary for rapid broad-based economic growth. Ideally, the basic education system of a nation lays the groundwork for national productivity by ensuring that all citizens acquire essential reading, writing, and numeracy skills. Education is also the foundation of full participation in stable, democratic societies. Economic, population, environmental, and political goals cannot be reached except from the platform of literacy.

USAID's goal is to ensure the quality of basic education, increase efficiency and equity, and achieve access to schooling for all. To achieve these ends, the Agency utilizes a combination of interrelated approaches: improving educational policies; improving educational institutions; improving teaching, curricula, and educational materials; and using targeted approaches to increase educational opportunities for girls and other disadvantaged groups.

### Improved Educational Policy Environment

USAID programs work through government systems and with other service providers to: 1) expand education coverage through adequate funding and national commitment; 2) improve education planning and management; 3) ensure availability of learning materials, innovative teaching methods, and appropriately trained

**Figure 1.6. Number of Country Programs Contributing to Agency Objective 1.3**



teachers; and 4) promote private-public partnerships and decentralization to give local communities control over their schools (see boxes 1.5 and 1.6).

Efforts in policy reform are central to Agency support for improved primary education and for expanded enrollment and retention of girls. In **Cam-bodia**, USAID-donor engagement of the government in policy dialog has resulted in a commitment to increase the share of primary education to 15 percent of the overall budget by the year 2000. The government of **Egypt** has expanded its

financial support for girl-friendly, community-assisted schooling in rural areas to help close the gender gap in primary school participation. In **Mo-rocce** the Ministry of Education has decentralized decisions in these areas in pilot zones where girls' enrollments and retention lag sharply with that of boys.

In the 14 countries with USAID programs working toward an improved policy environment, much of the work relies on an integrated, participatory approach to educational development. In Africa USAID's education sector

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### Box 1.5. Official Encourages Community Involvement in Mali School Programs

Mali's minister of basic education visited a community-based schooling program in Kolondieba. He was so impressed by what communities were willing to contribute to create schools that he returned to Bamako and began the New Basic School program, incorporating and expanding upon a USAID-funded Save the Children model of local school development. Consultants presented an ambitious program with curriculum review and modular components, local language instruction, curriculum reform, and a thorough restructuring of the Ministry of Basic Education. When teacher unions and opposition parties criticized the scope of these reforms and the lack of a participatory process in developing them, the minister was called before the National Assembly to explain the program. The reforms are now being redesigned based on input from these groups. A campaign has been initiated to inform Malians of the reforms and gain their commitment to them.

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support programs rely on policy reform as a primary component of an integrated approach to basic education. Education sector support programs attempt to influence a country's entire education budget, reaching the highest policymaking levels and often leveraging other donor support. The education sector support approach to development helps education systems identify and address their problems so the government itself can undertake the reforms it has defined.

Achieving systemic change requires fundamental reform in education policy, resource allocation, and institutional organization and operations, including changed roles for schools, teachers, and communities. These are the cornerstones that will permit governments to achieve sustainable

improvements in access to, equity in, and quality of basic education. Elements of this approach include 1) support of national or government-led sector reform, 2) budgetary support conditioned on performance toward policy reform, 3) promotion of systemic education change, 4) focus on institutional development, 5) donor involvement and coordination, and 6) "people level" outcomes—student access and performance.

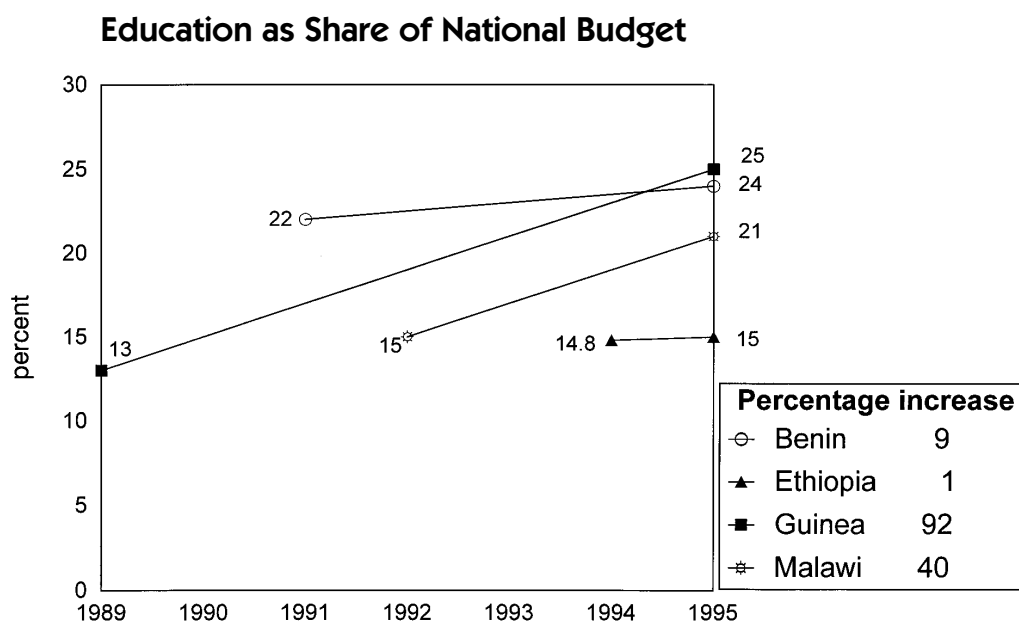
Emphasis on people-level impact, measured through indicators of economic growth, raises important questions. It brings into focus the process and pace of educational reform and how its contributions can be assessed. Success has been defined primarily in terms of student-level outcomes (in-

creased gross enrollment rates, reduced repetition and dropout rates, and increased literacy).

However, at the early stages of education reform, progress is more likely at the system level. Tangible improvements can be seen in four arenas of impact: education policy, institutional operations, school support, and community involvement. Achievement of student impact takes more time. Finally, people-level impact is predicated on achievements at the student and systems levels, as well as variables outside the education sector (see figure 1.7).

USAID's policy reform efforts continue to encourage adequate national budget allocations for basic education. Many countries have begun to shift resources from secondary and tertiary education into previously underfinanced primary education. In addition, government funding commitments are increasingly covering items besides teachers' salaries. With USAID assistance, **Benin, Ethiopia, Guinea, and Malawi** have increased the share of the education budget going for primary education and raised the nonsalary share of the budget (see figure 1.7). Specific policy reforms elsewhere have also brought about dramatic results. After Malawi offered free primary education to all in 1994, enrollments rose from 1.9 million in 1993 to 2.9 million in 1995.

**Figure 1.7. National Budget Allocations**



Source: AFR/SD.

USAID-assisted policy dialog activities, events, and tools have introduced administrators, government ministers, stakeholders, and other decision-makers to particular education reforms. See box 1.7 for one approach used in Latin America and the Caribbean. Another policy dialog technique is used by the USAID-funded Latin American Strategies for Educational Reform (LASER). This includes a computer graphics storyboard that demonstrates the relationship of education to economic growth. Other capacity-building methods are being used to help country governments design and articulate educational policy dialog. For example, **Bolivia's** national social sector

planning capacity increased after policymakers saw the relationship between education and health and family planning. LASER is stimulating educational reform in **Haiti, Ecuador, and Nicaragua**.

A nationwide social-marketing campaign initiated in 1995 built public support for Haitian educational development. Some 50,000 citizens participated in town meetings, focus groups, and other community discussions, leading to Haiti's first national public forum on education in January 1996, in which 750 delegates framed key public policy concerns and institutional capacity-building needs for the education sector. Recent progress in decentralizing education systems and

involving communities in education-related decisions and partnerships is leading to further improvements in quality and efficiency.

USAID efforts to promote decentralization and community participation have produced results in Central America. In **Guatemala** the Congress passed a law permitting local parents' committees to assist in selecting teachers, a task previously done entirely by the Ministry of Education. This reform, coupled with a more efficient data collection system, has reduced teacher appointment processing time from eight months to three, and has facilitated more appropriate



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assignments of bilingual teachers to indigenous language areas.

USAID-strengthened communities in **El Salvador** make decisions about education by involving the school board, parents, school administrators, teachers, and students. Under a new decentralized funding mechanism, government and donor resources go directly to school districts. In addition, USAID is working with **Egypt's** Ministry of Education to decentralize administrative functions and to integrate participation by parents and local communities in schooling issues.

Under **Mali's** recent legal framework, many private and community-managed schools are being established. This community school movement, spurred by USAID funding, helped increase gross enrollment from 22 percent in 1989 to 35 percent in 1995. New schools are utilizing nontraditional educational methods, such as locally recruited teachers and flexible schedules. Mali's alternative system seems to be more responsive to communities previously resistant to conventional educational approaches. Mali's experience may be helpful to educators in **Ethiopia**, who are beginning to explore alternative school systems.

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### Box 1.6. Conference Launches Dialog On Education Reform in the Americas

In December 1995 USAID sponsored the Partnership for Education Revitalization in the Americas conference, which brought together 200 participants from more than 70 organizations from North and South America. Discussions centered on education policy options in several areas: experiences in transforming education systems, national efforts in starting education reforms, basic education policy for special (minority) populations, and policy incentives in support of education partnerships. In this first meeting, leaders began to develop networks to coordinate and exchange information. In addition, the initial core group of institutions that will be strengthened under the partnership was formed. This entity will become a constituency for future educational reform in the Americas.

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#### Improved Educational Institutions

A good basic education system depends on well-managed, efficiently operated educational institutions. This includes systems and structures for information management, data collection and dissemination, administration and personnel management, achievement testing, planning, financial accounting, physical infrastructure development and expansion, and teacher training. USAID is working in 15 countries to assist with institutional improvement.

The Agency has helped implement financial, information, and school management systems to track a range of educational data that will be useful in educational planning. **Benin's** Ministry of Education's financial statements are now being produced and disseminated quarterly. In addition, the

ministry is supplying supplemental information for activities implemented under the primary education subsector reform program. **Mali's** Office of Statistics and Policy has transformed data into information useful to decision-makers. The "school distribution map," a computer-generated map of all primary school locations in Mali, displays many school attributes and enables education planners to determine which schools and areas are underutilized.

With USAID assistance during the past year, **Ghana** conducted a schools review to identify critical constraints to effective teaching and learning. Poor student performance on tests in English and mathematics prompted the government to initiate a major study that led to development of a new educational strategy.

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**El Salvador** sponsored a student achievement testing program in language and math for grades three and six. Results from students' first year of school are promising, with grade one promotion rates increasing from 62 percent in 1992 to 83 percent in 1995. With USAID assistance, the **Honduras** Ministry of Education established minimum learning objectives for each primary school subject area. Standardized tests have measured progress in four subjects, with test scores rising by 79 percent since 1991. These results are also attributable to efforts to improve teacher training and develop and provide educational materials such as workbooks, flash card sets, teachers' manuals, instructional aids, and more than 17 million textbooks.

Several countries are making gains in their efforts to decentralize school budget allotments, track management data, account for purchases and inventory, and manage teacher appointments and training. In **Nicaragua**, Ministry of Education personnel are being trained in decentralized management techniques, helping more than 500 primary schools achieve autonomy from the central government. **Benin, Ghana, and Mali** have decentralized their finance and budgeting systems to individual regions. Many of **Uganda's** districts prioritize and finance their own needs, even purchas-

ing instructional materials beyond those provided through central funds.

While measuring the direct effect of institutional improvements is often difficult, promotion rates, exam results, and school completion data indicate that institutional reforms are improving student success in several countries receiving USAID assistance. For example, the pass rates of **Benin's** leaving exam increased by 45 percent since 1990; in **Guatemala**, grade three math achievement test scores increased 22 percent in 1994–1995, and language scores increased 13 percent in just one year; and **Honduras** reported a 23 percent increase in graduates from grades one through nine during 1993–1995.

USAID has been active in school construction in several countries. In **Mali** the number of classrooms increased by 21 percent from 1989 to 1995 (from 7,413 to 8,978). The 1995 figure surpassed that year's target by 412 classrooms, permitting growth in Mali's gross enrollment rate from 22 percent in 1989 to 35 percent in 1995. **Malawi** has built 130 new primary school blocks (two classrooms and one teacher's house). The USAID Office of Transition Initiatives, the U.S. Army Special Forces, and members of the local communities have rehabilitated 364 schools and built 264 new schools in **Haiti's** underserved areas as of 1995.

## **Improved Teaching, Curriculum, and Educational Materials**

More than 18 USAID programs are working to improve teaching, curricula, and educational materials. The Agency and its partners aim to increase the quality of basic education by providing teacher training and skills development, enhancing curriculum relevancy and delivery methods, improving instructional techniques and materials, and promoting research and evaluation at the school and classroom level.

USAID assistance is providing access to more current and relevant educational materials in several countries:

■ USAID financed production of math and language textbooks for kindergarten through sixth grade in **El Salvador**. The books ensure that four cross-cutting themes—democracy, environment, gender, and health—are integrated into the primary school curriculum. In addition, the Ministry of Education financed two more books in social studies and science, giving each child four textbooks.

■ **Haiti** issued a standardized list of 136 primary school textbooks for nationwide use.

■ **Ghana** developed an alternative textbook production and distribution strategy, opening competitive bidding to 50 local

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## Box 1.7. Update on Female Illiteracy in Nepal

USAID/**Nepal** is taking on women's illiteracy, with impressive results. Because investing in women is as important to national prosperity as investing in agriculture and health, women's empowerment is an essential component of the strategy to reduce poverty.

Literacy rates for women range from half to two thirds of those for men, depending on the district and the ethnic group. USAID support to women's literacy programs has resulted in more than 260,000 women becoming literate, 116,000 in 1995 alone. That exceeds the target by 42 percent. In addition, through institutional strengthening and policy reforms, USAID contributed to an additional 147,000 women becoming literate, for a 1995 total of 247,704. As a result, Nepal's female literacy rate has increased from 22 percent in 1991 to 28 percent in 1995.

These results build into the work with women's empowerment, because literate female graduates become eligible for involvement in the Mission's microenterprise program and legal advocacy activities. Already 300 village-level savings and income-generating groups have been established in predominantly low-caste disadvantaged areas. Through USAID-supported legal advocacy groups, Nepal's high court declared existing inheritance laws unconstitutional because of gender bias (see chapter 3).

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printers for smaller lots of 50,000 per contract. Printers completing their contract on time were offered additional jobs. As a result, 3.2 million new primary school textbooks were printed and distributed, increasing the percentage of schoolchildren with books from 10 percent in 1989 to 96 percent in 1995.

■ In **Namibia** the government has established a unit to produce and distribute new curriculum materials for disadvantaged schools in grades one to four, in local languages and English.

■ In **Uganda** textbooks were provided in 1995 for grades five through seven at the desired rate of one set per child. However, books alone were not deemed sufficient. With USAID support, instructional materials now include posters, globes, and math and science kits.

■ During the civil war, **Cambodia's** education system and corps of primary school teachers was decimated. Poor teaching continues the vicious cycle of crowding, poor learning, and high failure rates. USAID, simultaneously supporting improved educational

materials and equipping of the country's "cluster schools," has begun a nationwide effort to retrain 45,000 primary school teachers and headmasters to improve the quality of instruction and learning and the system's internal efficiency.

Recent successes in adult literacy programs—for example, a dramatic USAID-supported increase in literacy among Nepali women—have been based on improved instructional materials, careful teacher recruitment and training, and monitoring of results (see box 1.7).

Curriculum reform is often informed by research and collaboration. This is especially evident in Africa. USAID and six NGOs have provided in-service training in **South Africa**, working together to assess the impact of training on teachers' instructional practices and learner participation in classes. This led to the development and use of a classroom observation instrument that helped collaborators design 11 components of a learning-centered teaching curriculum.

Teacher training is another important contributor to better learning. Activities in **Cambodia**, the **Dominican Republic**, **El Salvador**, **Haiti**, **Nicaragua**, and **Uganda** have targeted teachers and school administrators in order to improve education quality. Overall, results have been promising—fewer

students are repeating grades or dropping out and more are completing primary school.

### Expanded Opportunities in Education For Girls and Other Disadvantaged Groups

Lack of participation in basic education is a critical dimension of poverty. Broad-based sustainable economic growth requires expanding opportunities in education for girls and other disadvantaged groups. The problem is particularly acute in rural areas. In many developing countries, the illiteracy rate for young women in rural areas is two to three times that in urban areas. Family preferences, security concerns, and the need for subsistence agricultural and household labor limit both girls' and boys' education in rural areas.

In a number of counties in Africa and Asia/Near East, education of girls has lagged significantly behind that of boys. Education empowers women within their families and communities, improves women's income-earning potential, and reduces birth rates. USAID programs in 19 countries are working to expand opportunities in education for girls and other disadvantaged groups. (See boxes 1.7 and 1.8.) Partly with USAID support, a number of countries have

### Box 1.8. Expanding Girls' And Women's Education in Egypt

Egypt is a focal country for the Girls' and Women's Education Activity of USAID's Global Bureau. USAID/Egypt identified increased female education as a high priority, because of high female illiteracy rates (66 percent in 1990) and high primary-school dropout rates for girls (30 percent in 1994)—national rates that are worse in rural areas and upper Egypt. This gender gap in education constrains increasing women's participation in decisions affecting child survival and family size in Egypt. In addition, lack of education limits female participation in the labor force and in community affairs.

USAID/Egypt is concentrating on increasing the participation in primary education of girls between the ages of 6 and 13 in the rural areas and may also assist the highest risk urban areas, if needed. Because of the demonstrated link between mothers' literacy and their daughters' participation in basic education, USAID/Egypt will include complementary interventions in adult female literacy. Anticipated results of this effort include 1) an increased number of schools that have removed constraints to female attendance, 2) an increased demand for female education, and 3) an improvement in the national policy environment, as it affects female education opportunities. Achievement is being measured by the increase in the number of girls and young women in targeted areas receiving quality basic education.

Through its partnership with the Center for Development and Population Activities, USAID is also supporting nonformal education and community awareness to promote girls' education. Within several rural communities of upper Egypt, a pilot scholarship program for girls has been introduced, targeting poor families, for whom girls' schooling is too frequently a first casualty.

shown innovative approaches to improving girls' opportunities in education:

■ In **Malawi** USAID-supported social mobilization campaigns and the elimination of school fees in 1993, among other innovative approaches raised the net enrollment rate for girls from 55 percent in 1992 to 95 percent in 1995.

■ To test the effect on enrollment of a more flexible school calendar, **Morocco's** Ministry of Education decentralized decisions in pilot zones where girls' enrollments and retention lag sharply behind that of boys. The ministry has committed to a reformed curriculum and teacher-training program adapted to interactive, girl-

friendly instruction and to increasing participation by girls in rural areas.

■ The Egyptian government increased its financial support for community-assisted schooling that will help close the gender gap in primary school participation in rural areas. Moreover, nonformal education has been introduced to increase outcomes across sectors, including longer term family planning and intergenerational support for girls' schooling. In 1995, 106 women received leadership training. Through activities of 25 learning centers in middle and upper Egypt, more than 1,200 girls and young women were educated in literacy, health, life skills, and reproductive rights.

USAID is helping countries expand educational opportunities for children in disadvantaged ethnic groups and hard-to-reach geographic areas. For rural populations, access to primary education often requires more than just schools and teachers. It must address parents' perceptions of quality and relevance, and the institutional environment must be responsive to community concerns.

Until recently, little was done in **Guatemala** to provide schooling for girls or for the Mayan population. Now, USAID is helping extend educational opportunities to these populations. In **Egypt**, USAID is building community support and involvement in

interactive instruction, drawing on a UNICEF model of community schooling and targeting out-of-school children in rural areas. Similarly, USAID programming efforts in **South Africa** seek to reach historically disadvantaged segments of the population.

## Conclusion


In 1995, more USAID-recipient countries improved economic growth performance than in past years, measured in terms of annual average growth rates for gross domestic product, gross domestic investment, and merchandise exports. Per capita income, measured as per capita gross national product, also grew at a faster pace in more countries than previous years.

Overall, more people now live in countries that have achieved moderate to high economic growth rates. Countries that achieved accelerated economic growth, expanded social services, and made major investments in human capital showed significant progress in poverty reduction. Economic growth in aid-recipient countries has also benefited the U.S. national interest in terms of increased trade and investment. Americans sold more goods and services to aid-recipient countries and increased their investments in countries that opened their economies.

USAID programs have, in general, been a catalyst in reducing poverty worldwide. Assistance directed at strengthening markets of recipient countries has increased citizens' economic freedoms and enhanced access to markets, employment, and income-generating activities. Countries that progressively moved toward achieving a sound economic framework and free and open markets stimulated both domestic and foreign direct investment. That increased employment and income opportunities.

Assistance directed at improving agricultural productivity, including agricultural technology, has increased food availability and reduced food insecurity. Expanding nontraditional agricultural exports has expanded economic opportunities for more poor people, including women. The strengthening of financial systems—microfinance, in particular—has enabled more poor people to participate in economic growth. USAID's infrastructure support, coupled with improved market arrangements, has enhanced market access and improved incomes of businesses and rural people. USAID has also helped many of the new independent states make the transition from state domination to market orientation.

In the longer term, the most promising prospects for developing countries probably come from the rapid expansion of basic education. Education of



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children has a long gestation period. There is a long lag time between cost and payoff in higher productivity as children enter adulthood. The returns to basic education are nevertheless very high, and the investments of the last two decades should now begin to yield benefits. Girls' education is a particularly powerful tool, producing valuable social results in lower fertility and better health and nutrition, as well as positive economic payoffs.

## Endnotes

<sup>1</sup> The economic growth estimates presented here are based on table 1 of the World Bank's 1996 *World Development Report*.

<sup>2</sup> Sulekhan Patel, *Social Indicators of Development*, Finance & Development, World Bank, June 1996.

<sup>3</sup> Donald G. McClelland, *Investments in Agriculture* (USAID/CDIE, August 1996) provides a synthesis of the available research on the importance of technology and other factors in agricultural development.

